Maryland Health Care Commission

Survey of Maryland's Small Group Market, by Group Size - Analysis of Survey Responses

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Introduction

As part of Chapter 400 of the Annotated Code of Maryland, 2000 (House Bill 649), the Maryland Health Care Commission (MHCC) is required to report to the House Economic Matters Committee and the Senate Finance Committee on the effect of group size in the small group insurance market on the HMO and PPO delivery systems of each prominent carrier in the small group insurance market[1]. The bill requires the MHCC to specifically consider the effect of group size (including self-employed groups) in the small group insurance market on:

- the extent of group coverage
- premium increases
- the number of covered lives
- the number of policies issued
- premiums earned
- claims incurred

Although the bill does not require the MHCC to analyze the point-of-service (POS) delivery systems, POS has been included to help determine whether group size affects these factors listed above, by including additional CSHBP lives under a managed care plan in the study.

Survey Results

The MHCC engaged William M. Mercer, Incorporated (Mercer) to conduct a survey of carriers and analyze the results. Mercer surveyed the four prominent small group carriers for HMO, POS, and PPO plans. The carriers were MAMSI/OCI, CareFirst, Aetna U.S. Healthcare, and UnitedHealthcare. These carriers represent 94 percent of the Maryland small group HMO market, 100 percent of the Maryland small group POS market, and 71 percent of the Maryland small group PPO market.[2]

The survey asked for financial and membership information on the Comprehensive Standard Health Benefit Plan (CSHBP) segregated by group size. For uniformity and to

[1] Chapter 400 also requires the MHCC to assess the impact of a high deductible plan in the small group market. This assessment and the Commission's conclusions are presented in another report entitled, *"Annual Review of the Comprehensive Standard Health Benefit Plan for the year ending December 31, 1999."*

[2] Note: These percentages are based on data updated by the Commission in July 2000 and are slightly different from the numbers reported in the Commission's *Summary of Carrier Experience* published in May 2000 (Appendix 1).

help aggregate the information, Mercer requested that the information be divided into the following employee group sizes:

- 1 employee:
  - Self-employed
  - Groups with 1 participating employee
- 2-5 employees
- 6-9 employees
- 10-25 employees
- 26-50 employees

Mercer also asked the carriers to provide the required information both with and without riders that increase the benefits from the CSHBP base plan level. This would allow the examination of both the CSHBP and the benefit upgrades that small employers purchase. Information was requested for 1998, 1999, and the first half of 2000. See Exhibit 1 for the requested data format (available upon request).

All the carriers submitted information, and Mercer compared the information to the financial data annually reported to the MHCC for the CSHBP Monitoring Report. The CSHBP Monitoring Report does not capture data segregated by group size and is supposed to exclude financial information on any riders to the CSHBP. The Monitoring Report data are collected annually by the MHCC to assess the health of the small group insurance market, including determination of whether premiums are below the 12 percent affordability cap. The MHCC conducts its survey between January and April of each year to capture the prior year's experience (See Appendix 1 for the most recent financial survey results – available on the Commission's website under "Health Insurance Market Reform"). The reason for comparing the two data reports is to ensure that both reports are accurate. The MHCC use the Monitoring Report to assure that the CSHBP premium rate remains below the affordability cap. As the average premium in the CSHBP approaches the affordability cap, the accuracy of reported data becomes even more crucial.

The information submitted to Mercer in response to the survey had the following shortcomings:

- Shortcomings in completeness of data:

  - *Inability to segregate data by group size* – One of the carriers was not able to segregate any of its information by group size. Two of the carriers were able to segregate information by group size but were not able to segregate self-employed from small groups that had only one participating employee. This limits the ability to draw conclusions about self-employed contract holders.

  - *Inability to report data for all three time periods* – One of the carriers was not able to provide financial information for 1998. Two of the carriers were not able

to provide financial information on the entire first six months of 2000. This limits the ability to draw conclusions about trends by group size.

- *Inability to accurately report enrollment* – Three of the carriers had problems accurately determining the number of covered groups and employees, so they approximated these values. This limits the ability to draw conclusions about the number of dependents per employee by group size.

- *Inability to accurately report annual enrollment additions and terminations* – Two of the carriers could not accurately report on the number of new and terminating groups each year. This limits the ability to draw conclusions about the turnover rate by group size.

- Shortcomings in reconciling to Monitoring Reports – The following points should be noted when comparing the Mercer survey data to the data from the CSHBP Monitoring Report for 1998 and 1999:

  - Only one of the carriers was able to segregate the rider premium and claims from the CSHBP premium and claims but was not able to segregate the experience by group size.

  - One carrier submitted data that had up to 27 percent fewer reported employees than in the data submitted to the MHCC for the CSHBP Monitoring Report.

  - Another carrier stated that it sold HMO, POS, and PPO small group contracts but was only able to report the HMO (for 1998) and PPO information to the Commission and was only able to report the HMO (for 1999) and POS information to Mercer.

  - Another carrier submitted HMO and PPO but no POS financial information to the MHCC but submitted HMO, PPO, and POS financial information to Mercer. The 1998 HMO financials reported to Mercer had almost 50 percent more members and almost 40 percent more premium revenue than the 1998 HMO financial information reported to the MHCC. The 1999 HMO financial information was much closer but HMO membership reported to Mercer was still 10 percent higher than the membership reported to the MHCC. There was only a one percent difference in the reported 1999 HMO premium revenue. For both 1998 and 1999, the PPO membership reported to Mercer was 5 percent to 10 percent higher than the membership reported to the MHCC while the premium revenue reported to Mercer was 12 percent to 19 percent lower than the PPO premium revenue reported to the MHCC.

  - Another carrier reported HMO membership that was 10 percent to 20 percent of the membership reported to the MHCC, and premium and claims that were about

40 percent of the amount reported to the MHCC. The PPO information reported to Mercer and the MHCC were the same.

Together, these shortcomings have a composite effect of limiting the ability to draw accurate conclusions on the effect of group size. To conduct its analysis, Mercer used the data for only 1999 because it was the most complete part of the data submitted.

Using the survey responses from the three carriers that were able to segregate data by group size, and limiting the analysis to the 1999 experience including riders, the following observations can be made:

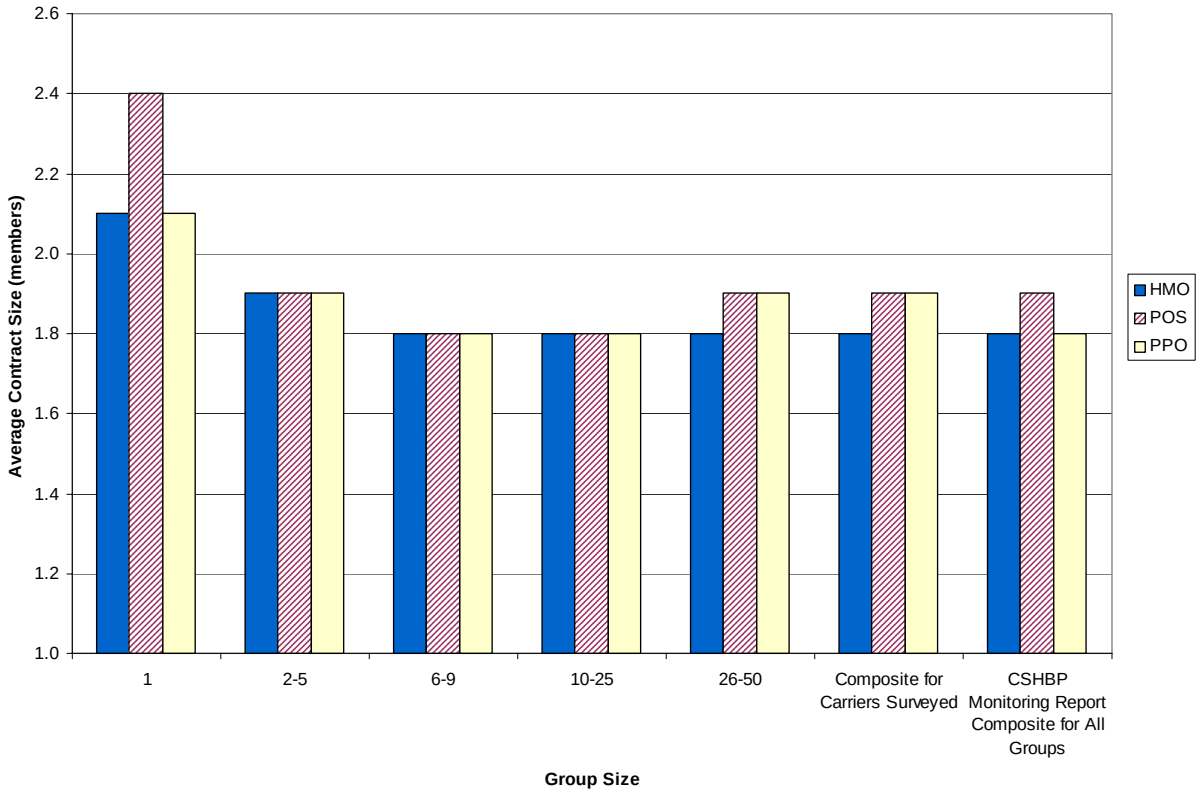
- **Groups by Size as a Proportion of the Entire Small Group Market:** An impetus to House Bill 649, as it was originally introduced, was the belief that very small employer groups and the self-employed were taking advantage of the guaranteed access and pre-existing condition prohibition protections of the small group market law and purchasing insurance only when a need for coverage was anticipated. Under this scenario, claims for those smallest groups would be much higher than their premiums. An analysis of the groups by size shows the following relationship:

Group Size: Number of Employees	Proportion of Covered Lives	Proportion of Premiums	Proportion of Claims
1	9.4%	9.9%	12.3%
2-5	30.3%	30.9%	31.8%
6-9	16.1%	16.1%	15.8%
10-25	29.8%	29.4%	27.0%
26-50	14.4%	13.6%	13.0%

Over 9 percent of covered lives in the small group market come from groups of one. Groups of 2-5 and groups of 6-9 make up about 30 and 16 percent, respectively, of the small group market's covered lives. Therefore, almost 56 percent of covered lives in the small group are found in groups with less than 10 employees. As can be seen in the table above, the proportion of covered lives tracks closely the proportion of premiums paid by each respective group size.

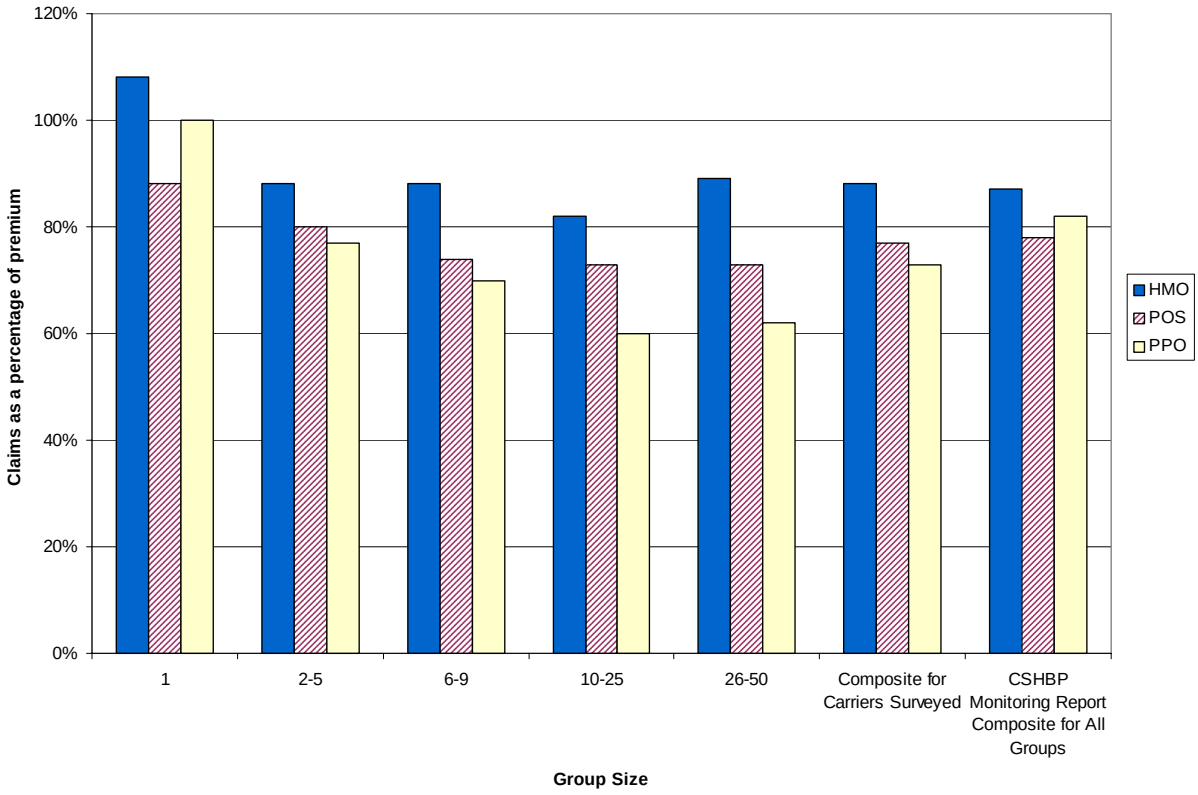
Groups of one comprise almost 10 percent of all premiums paid in the small group market while they are responsible for over 12 percent of incurred claims. Similarly, groups of 2-5 pay almost 31 percent of premiums and have claims that are just under 32 percent of claims. For all other group sizes, the proportion of their premiums paid is higher than their incurred claims. It can be concluded that while the smallest groups are responsible for a greater proportion of incurred claims relative to their premiums, this is not surprising, as one of the purposes of the creation of the small group market reforms was to foster risk pooling so that groups with greater risks would not be priced out of the market when their claims exceeded their premiums. Total premiums for the carriers that were surveyed were over $412 million while total incurred claims were only $326.6 million. Exhibit 2 contains the raw data used for the calculation of groups by size as a proportion of the entire small group market.

Chart 1
Small Group Survey
1999 Members per Employee



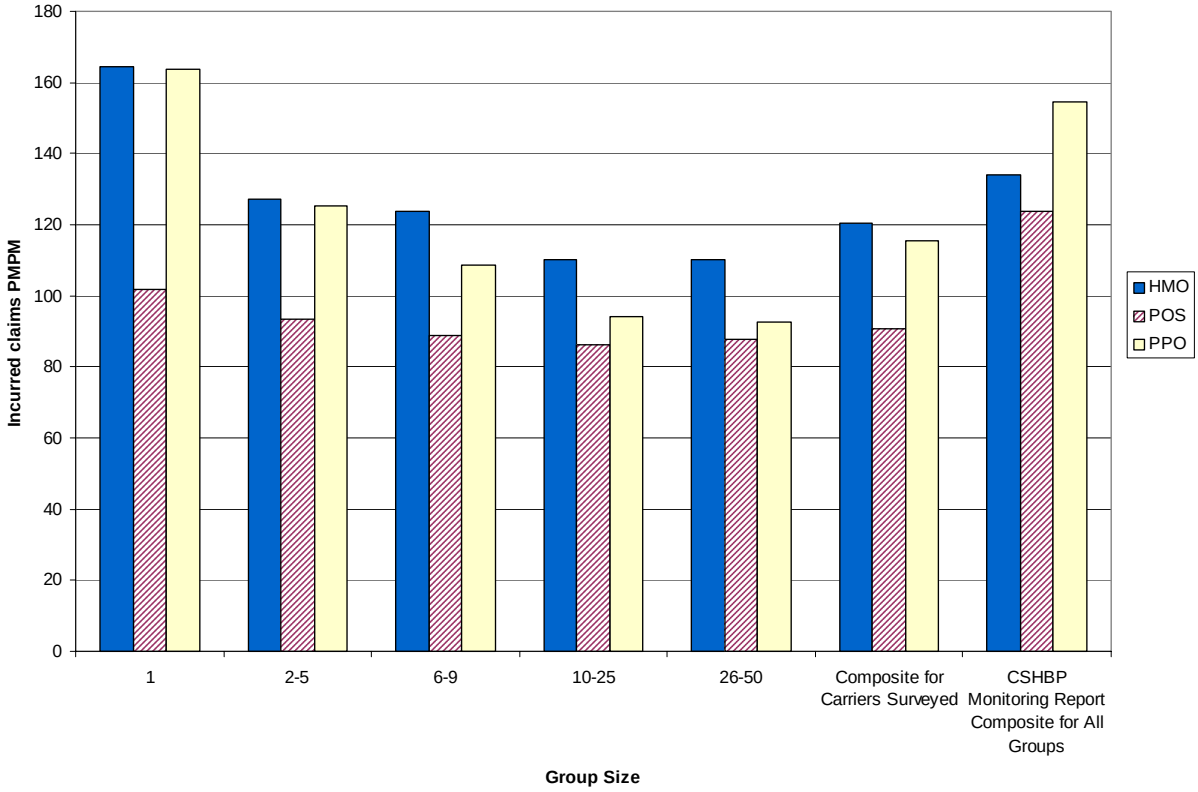
- **Chart 1 – Members Per Employee:** Groups with only one employee had a slightly higher number of members per employee than the other group sizes. This is true for all three types of delivery system. Excluding groups with only one employee, there was not a significant difference by group size. The higher number of members for the groups of one could represent a higher participation of spouses, children, or a combination of both. Overall, groups with only one employee had about 0.3 more dependents per employee. Because these groups have a higher number of dependents per employee, they also should have both higher premium costs and claims costs per employee. Based on the information from the one carrier that was able to segregate the self-employed, a higher number of dependents occurred more with the groups that had only one participating employee than the self-employed; however, both types of one-employee groups had a higher number of dependents per employee than the other group sizes.

Chart 2
Small Group Survey
1999 Loss Ratio



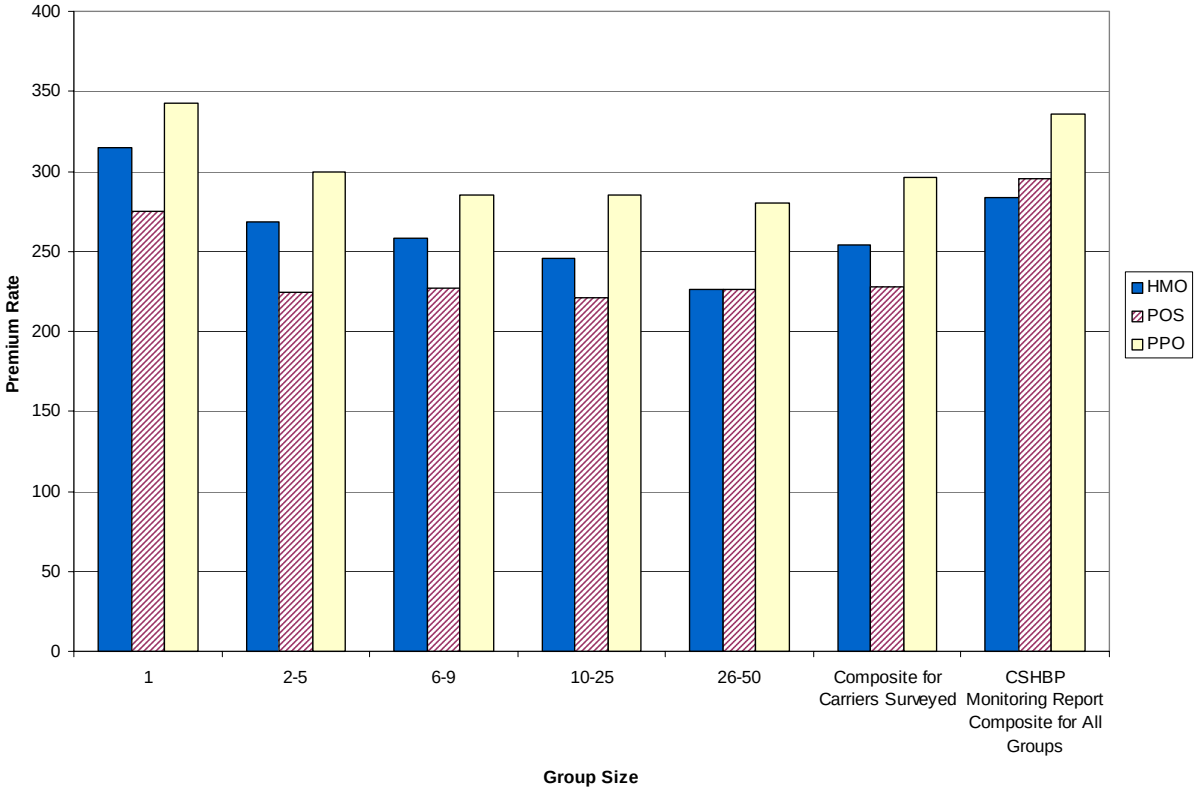
- **Chart 2 – Loss Ratio:** The loss ratio equals claims as a percentage of premium. Overall, the reported loss ratio is significantly higher for groups with only one employee than for any other group size. For HMO coverage, groups of one had a loss ratio that is 23 percent higher than the small group average HMO loss ratio. For POS coverage, groups of one had a loss ratio that is 14 percent higher than the small group average POS loss ratio. For PPO coverage, groups of one had a loss ratio that is 37 percent higher than the small group average PPO loss ratio. For groups with 2 to 5 employees, the loss ratio was less than 5 percent higher than the small group average loss ratio. For groups with more than 5 lives, the loss ratio was 0 percent to 10 percent lower than the small group average loss ratio. Between the 6-9, 10-25, and 26-50 group size bands, there was not a clear relationship between group size and loss ratio. For the one carrier that segregated self-employed contract holders, the loss ratio for the self-employed groups was about 15 percent higher than the loss ratio for the other groups with one enrolled employee.

Chart 3
Small Group Survey
1999 Claims Per Member Per Month



- **Chart 3 – Claims Per Member Per Month (PMPM):** Claims PMPM were about 35 percent higher for groups of one employee than for all other group sizes. The PPO system is the only one that showed a consistently decreasing claims PMPM as group size increased. However, for HMO and POS coverage, the claims PMPM decreased as group size increased except for the 26-50 size band where the claims PMPM where slightly higher than for the 10-25 size band. Overall, PMPM costs decreased as group size increased. For the one carrier that segregated self-employed contract holders, PMPM claims for the self-employed were about 20 percent than PMPM claims for other groups of one employee.

Chart 4
Small Group Survey
1999 Premium Per Employee Per Month



- **Chart 4 – Premium Per Employee Per Month (PEPM):** Premiums PEPM were about 20 percent higher for one-employee groups than for other group sizes. The PPO and HMO systems showed a consistently decreasing premium rate as group size increased, but the POS system did not show a consistent relationship beyond groups of one employee versus groups of two or more employees. For the one carrier that segregated self-employed contract holders, the self-employed had a consistently lower premium PEPM than the groups with only one participating employee, but still were higher than the premium rate for any of the other group size bands. The PEPM premium for the self-employed was about 10 percent lower than the PEPM premium for other groups with one employee. This appears to be because there are fewer dependents per employee with the self-employed than with the groups with only one participating employee, but still more dependents per employee than any other group size.

  Note that, when comparing the self-employed to other groups of one employee, the premium rate PEPM for the self-employed is about 10 percent lower, whereas the claims cost PMPM is about 20 percent higher. This is reflected in the 15 percent higher loss ratio.

Chart 5a
Small Group Survey
1999 Turnover – HMO

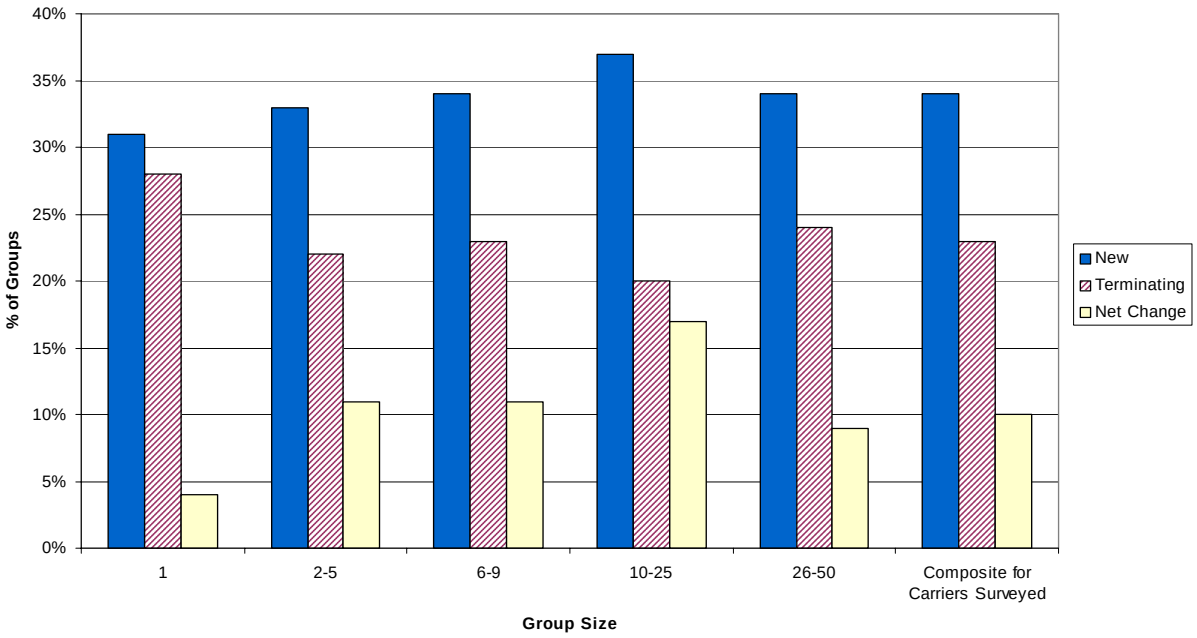


Chart 5b
Small Group Survey
1999 Turnover – POS

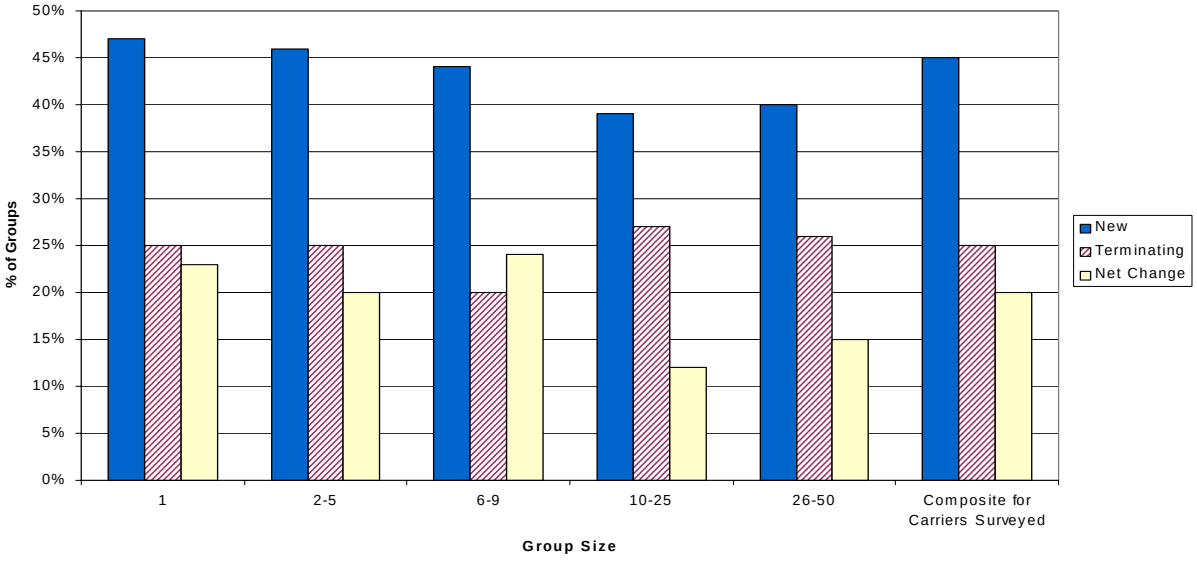
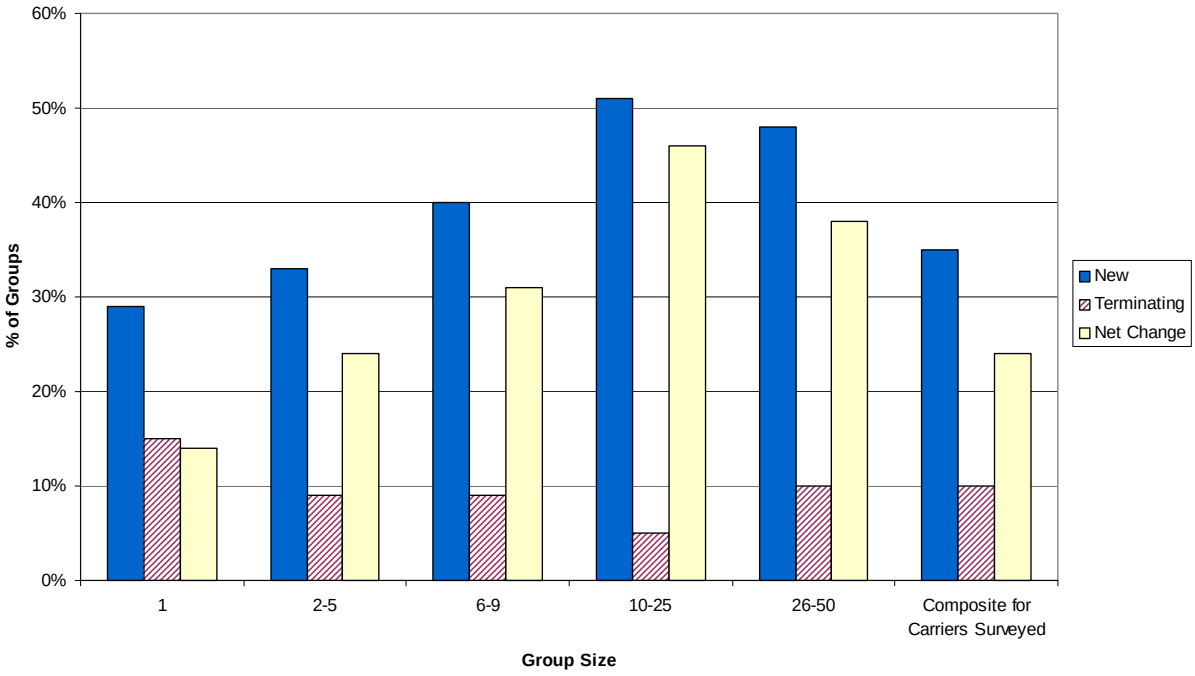


Chart 5c
Small Group Survey
1999 Turnover – PPO



- **Charts 5a though 5c – Turnover:** For the two carriers that reported new sales and terminations by group size, Chart 5a shows the HMO results, Chart 5b shows the POS results, and Chart 5c shows the PPO results. All systems and group sizes showed enrollment growth in 1999. For the HMO system, groups of one showed the lowest enrollment growth and the highest termination rate. For the POS system, groups of one showed a slightly higher new contract rate, but the net change was similar to groups with 2-5, and 6-9. For the PPO system, groups of one had the lowest rate of new sales and net change. This implies that, for net contract growth, groups of one are more attracted to the POS system than are other group sizes while less attracted to the HMO and PPO system than other group sizes. Overall, HMOs had the lowest growth, while systems that offered out-of-network benefits experienced higher growth. The PPO system has the greatest flexibility for accessing out-of-network providers, but the cost PMPM is higher than for the other systems. The higher cost may be the reason for the lower growth for groups of one, where the employee may not receive as large an employee subsidy as the other group sizes receive.

The analysis above was based on 1999 reported experience because all the carriers provided experience for 1999. However, whereas Mercer requested data for 1998 through the first six months of 2000, each carrier provided data covering a different date range. This made it impossible to combine the carrier data and at the same time develop composite rates that represented a consistent demographic group. With the limited amount of data provided, cost trends by group size could not be analyzed with any degree of accuracy.

Public Comments

The Survey of Maryland's Small Group Market by Group Size was presented at the November MHCC meeting. A public comment period was open until December 5th. The MHCC received public comments from the Maryland Chamber of Commerce and CareFirst BlueCross BlueShield. In addition to the two public comments received, on November 28th, the MHCC convened a meeting of a number of carriers in the small group market, along with representatives of the broker community and the Maryland Insurance Administration.

The Chamber, in its letter, notes that, although the data seem to be inadequate, the costs for groups of one are substantially different from groups with 2 to 50 employees. They call for further investigation into this disparity. They also urge the carriers to give the best possible information and that the MHCC help them develop cost effective ways to provide the accurate data. The MHCC has no disagreement with those statements.

CareFirst noted that their data also show that loss ratios for groups of one and for the self-employed are higher than other group sizes. They also stated that they estimate that groups of one increase the overall premium for the small group market by just under 2 percent. They provided two proposals to address this impact: (1) consider implementing group-size factors in the rating formula so that, in addition to age and geography, a carrier could rate adjust for being a group of one or self-employed; and/or (2) since the open enrollment product will be moving to a CSHBP benefit structure, require new groups of one and new self-employed to move to that product.

At the meeting of carriers, brokers, and regulators, there was a general discussion about the quality of the data, the issue of missing data, and the problem of not being able to distinguish between rider and base premium. There was agreement among most carriers that, without completely changing their data collection systems, it would be very difficult to segregate that premium information.

The MHCC has agreed to work with carriers to figure out a possible methodology to estimate the impact of riders on reported premium. The MHCC has asked carriers to provide, by the end of December, suggestions on how they could report better data. The

MHCC also agreed to work with carriers to improve the Monitoring Report that the MHCC now uses to collect the information about the small group market.

Although there are preliminary indications that groups of one and the self-employed may have higher loss ratios, and brokers and carriers do suggest anecdotal evidence of this, the MHCC feels that too much data are either missing or not comparable across carriers and no changes to the small group market should be considered until better information can be gathered and analyzed.

In the past, there has been resistance on the part of the MHCC to take groups of one and the self-employed out of the small group risk pool. This resistance has been based on the fact that no good alternative existed where those groups of one could purchase health insurance. Even though the open enrollment product will now mirror the small group benefit plan, we still have no experience as to whether that product will be affordable. The open enrollment premium will undoubtedly be higher than the small group premium.

Conclusions

1. Effect of Group Size:

Some clear relationships are seen in the reported experience for groups of one when comparing it to other group sizes. Within the group size bands for groups with two or more employees, there does not seem to be any clear relationships by group size.

Groups of one employee have more dependents per employee than the other group sizes. This relationship leads to a higher premium rate per employee. Also, the claims cost per member is higher. Although the premium rates for groups of one are higher per employee to account for more dependents or family contracts, the increase in rates does not account for the higher claim costs PMPM; therefore, the loss ratio for groups of one is higher and groups of one are less profitable for carriers.

Precise conclusions could not be reached about the self-employed since only one carrier separated them from groups with only one participating employee. For the one carrier that did segregate the experience for the self-employed, the loss ratio for the self-employed was about 15 percent higher than for other groups of one employee. Although self-employed groups have higher claims per member, the impact of these higher claims is not reflected in the self-employed premium since adjusting for group size is prohibited in the small group market rating process.

2. Effect of Poor Quality of Data:

The poor quality of data affects the ability to draw conclusions from the financial experience and it affects the MHCC's ability to monitor the effectiveness of the CSHBP

to deliver an affordable and comprehensive product to the small group market. The reporting by the carriers needs to be improved.

Although carriers may not be able to segregate claims experience for riders, carriers should be expected to segregate premium revenue for riders. Without segregating the CSHBP revenue, it is impossible to explore whether the CSHBP has made coverage more accessible for groups of all sizes. Each year, the Commission considers reduced benefits or increased cost sharing arrangements to stay within the 12 percent affordability limit. The impact of these changes would not be captured in the data reported, because employers could buy back reduced benefits or increased out-of-pocket costs via riders and carriers would include these costs in premiums reported to the MHCC. The differences between the information provided to the MHCC and the information provided to Mercer indicate a need for carriers to improve reporting.

Mercer recommends that the MHCC audit the reports submitted to ensure that the information is reliable, accurate, comprehensive, and capturing the appropriate source data. If the data do not segregate rider premium revenue, the MHCC may be misled in its future decisions. Also, the data should be verified to ensure that non-CSHBP contracts are segregated from the experience. The MHCC will be working with the carriers and the MIA to implement an improved methodology for reporting segregated premiums and to encourage carriers to collect certain data in a form that the Commission will be able to utilize in a continuing effort to look at the impact of group size on the small group market. The methodology for reporting segregated premiums will be promulgated in regulation. Mercer is assisting the Commission to determine how data can be reported more accurately without putting undue burden on the carriers' administration systems.